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# WEEKLY SUMMARY



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**SECRET****H I G H L I G H T S**

One week after the assassination of UN Mediator Bernadotte it appeared increasingly likely that the tragic incident would hasten a settlement of the Palestine problem. Both the US and the UK have strongly urged Arab-Jewish acceptance of the Bernadotte report, and present indications are that the UN General Assembly will in general adopt the Mediator's proposals (see page 7).

Possibly in anticipation of a move by the western powers to refer the Berlin situation to the UN, Soviet propagandists during the past week made strenuous efforts to discredit the motives and impartiality of the UN and Secretary General Lie (see page 5). Other propaganda charges indicate that the USSR will probably deny UN jurisdiction over the Berlin problem.

The problems of economic recovery continue to plague the countries of western Europe. In France, the Queuille Government has been forced by political exigencies to grant a 15% wage increase which will inevitably strain the French economy still further. The UK has, in recognition of the international situation, undertaken a rearmament program which will retard British progress toward recovery (see page 4). In western Germany, the economic recovery program may be crippled by widespread dissatisfaction among organized German laborers (see page 2).

The outbreak in Indonesia of widespread military action now appears probable (see page 11 and map). The possibility of a Netherlands-Republic settlement in Indonesia has been seriously jeopardized by this development. If the Dutch intervene on the grounds that the Republic cannot maintain order, the basis for a political agreement between the two parties will be destroyed. In China, a new Communist general offensive has apparently begun (see page 11). Major military reverses, combined with an anticipated failure of the currency reform may create a new period of crisis for the National Government.

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## WESTERN EUROPE

## GERMANY

The western German economic program may be crippled by dissatisfaction among organized labor with the economic controls exercised by the western nations. Leaders of the Social Democratic Party (SPD) have previously justified close cooperation with the allied military governments by citing western resistance to Soviet expansion and the "open mind" of the western powers toward ultimate socialization of German industry. The party leadership is now under increasing attack for this cooperation, however, because of several "unpopular" decisions recently made by the US-UK military governments. In an effort to strengthen its support from the membership, the SPD may endorse a policy of reduced cooperation with the occupation powers and may even countenance a tactical combination with the Communist Party (KPD). The SPD and KPD have already joined forces in the current wage dispute in the Bavarian metal industry. While any formal alliance or permanent working agreement between the two parties is unlikely, any extensive cooperation at the present time could seriously disrupt economic recovery in western Germany.

## BELGIUM

Benelux economic recovery is being delayed by the con-tinued impasse in negotiations between the Low Countries and Bizonia on the use of Rotterdam and Antwerp for Rhine trade. The objection by US-UK occupation authorities to a Belgian proposal for allocation of traffic between Dutch and Belgian ports is now the major obstacle to agreement. Although Rotterdam, because of its more favorable location, would normally receive most of the traffic, the Dutch have reluctantly supported the Belgian position in the interests of Benelux unity and recovery.

**SECRET****BELGIUM**

With ECA dollar funds, the US-UK occupation authorities are now able to make contracts directly with barge operators of the Low Countries and they are proceeding without a formal agreement between the US-UK Zone and Benelux, and Rotterdam is being selected to an increasing degree in such arrangements.

If no agreement on traffic allocation is reached, some increase in use of Benelux ports will materialize nonetheless, and Rotterdam will handle an even larger proportion of Rhine traffic than it did prior to the war. This shift in traffic will seriously affect Belgian shipping activities, particularly in the port of Antwerp, and may involve Belgium in financial and unemployment problems that will further increase the difficulty of establishing an effective economic union with the Netherlands.

**SPAIN**

Recent Franco "maneuvers" may reflect pressure from Spanish bankers and industrialists to have Spain share in the benefits of collaboration with the US and the western European nations and may be a sign that, contrary to popular belief, his domestic position has been impaired by ostracism from the "family of nations." Since 1946 Franco has campaigned to strengthen relations with all nations having strong historical or cultural ties with Spain in the hope of overcoming through them the diplomatic and commercial isolation of his country. This campaign has resulted in "discreet" pressure in the UN for a watering down of the present anti-Franco resolution, but it is doubtful a two-thirds vote can be obtained for major revisions. Franco has been attempting recently to remove some causes for criticism by announcing municipal elections and again seeking a rapprochement with Don Juan (Pretender to the Spanish throne). His planned trip to Portugal falls within the general pattern of his design to gain for both himself and Spain a nominal acceptance by the western European nations. Unsatisfactory economic

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**SECRET****SPAIN**

conditions in Spain explain, in large part, Franco's anxiety to effect a reconciliation with the US and western European nations while he is still in a position to exercise initiative.

**UNITED KINGDOM**

The British preparedness program will undoubtedly delay economic recovery, despite the Government's expressed hope to the contrary. Even a modest rearmament program can be expected to delay recovery because the UK lacks surpluses of manpower, strategic raw materials, and production facilities. When the realization becomes general that the Government's decisions are likely to entail increased dependence upon the US as well as postponement of economic recovery, existing widespread approval for the new defense measures may be diminished.

**SWEDEN**

Sweden's first general elections since the war may eventually lead to the formation of a coalition government. In the lower house, the Social Democrats, with 112 votes, still have a working majority over the combined non-Communist opposition with 109. Technically, the Communists hold a balance of power with 9 votes. Although the Social Democrats retain control of the Government, the country's critical financial and economic situation might predispose the party to form a coalition which could share its responsibilities. Such a coalition would not be likely to alter Sweden's foreign policy, however, because all parties except the Communist support Government participation in the European recovery program and Swedish neutrality vis-a-vis either an East or a West bloc.

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## E A S T E R N   E U R O P E

## SOVIET UNION

Soviet propaganda during the past week lashed out with strong frontal attacks designed to place the US and the western nations on the defensive, while continuing to refrain from telling the Russian people about the seriousness of the Berlin situation. The major maneuvers of the Soviet propagandists were attempts to discredit the motives and impartiality of the UN and Secretary General Lie; continued declaration that the US should announce a definite withdrawal date for troops in South Korea as the USSR did for its troops in North Korea; German Communist protestations of Soviet readiness to participate in a "simultaneous" four-power withdrawal of all occupation troops in Germany; and, repeated attacks upon the European recovery program as an "imperialist" tool of reactionary nations deliberately circumventing the UN.

By attacking the impartiality of the UN, the USSR is probably hoping to reduce as much as possible the effect of any UN decision condemning Soviet action in Germany, the Balkans, or Korea, and adverse votes on other GA items. If Soviet propaganda reflects accurately the thinking of the Kremlin, then the Soviet representatives at the General Assembly will probably deny that the UN has jurisdiction over the Berlin crisis, question the legality of the UN Commission on Korea, and attempt to distract attention from the report of the UN Balkan Commission by attacking the Greek government. The seriousness of Soviet intentions in declaring readiness to participate in a simultaneous withdrawal of all occupation troops from Germany may be discounted because the Kremlin is fully aware of western unwillingness to withdraw from Europe at this time. The continued attacks upon the European recovery program may be carried into UN discussions as a part of the Soviet effort to substantiate its claim that the US is using the European recovery program to "colonize and exploit" the prostrate European nations.

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## SOVIET UNION

The Kremlin may intend to use its proposed establishment of a Consulate General in Jerusalem as the basis for a new attempt to send military observers to Palestine. The USSR, rebuffed in its previous attempt to send military observers to Palestine, will probably seek membership on the UN Truce Commission to obtain inclusion of its military observers. (Under the Security Council resolution, the present military observers were selected from those UN members, which, on the basis of having Consulates General in Jerusalem, were appointed to the Truce Commission.) In addition, the Soviet Union will utilize a consular office in Jerusalem to further its current campaign to gain control of all Russian Church property and personnel in Jewish-held territory.

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## NEAR EAST - AFRICA

## PALESTINE

The assassination of Bernadotte will almost certainly impel the UN General Assembly now meeting in Paris to attempt a final solution of the Palestine problem. Although both the Arab states and the Provisional Government of Israel will certainly oppose some of the Mediator's proposals, Bernadotte's suggestion that the UN must order both sides to accept a solution will have great appeal to General Assembly members. Both sides will argue bitterly such thorny issues as frontiers, refugees and the status of Haifa and Jerusalem, but the GA, its patience strained by the tragic circumstances of Bernadotte's death, will probably follow his proposals in general.

The real test of UN ability to impose a settlement will come if either party refuses to accept the GA solution or to carry out those portions which it opposes. Growing Israeli intransigence has been tempered by a shocked realization of the implications of Bernadotte's assassination, but the PGI may hope that this resentment will subside with time and enable the Jews to seek a more favorable solution. The Arab League, on the other hand, is unlikely to oppose forcibly a settlement based on Bernadotte's proposals.

The formation of an Arab Palestine government has been announced by the Arab League notwithstanding the violent objections of Transjordan, backed by Iraq. This move apparently represents an attempt by the non-Hashimite members of the League (primarily Syria and Egypt) to: (1) prevent the incorporation of central Palestine into Transjordan; (2) placate nationalist opinion, which has long demanded an Arab government for all Palestine; and (3) shift the main responsibility for developments in Palestine from their own governments and armed forces to an independent Palestine government. Even though the Iraqi

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**PALESTINE**

and Transjordan armies are in effective control of central Palestine, the establishment of a Palestinian government will place those two countries in an embarrassing position.

If King Abdullah of Transjordan fails to cooperate with the new government, he will incur the hostility of Arab nationalists throughout the Near East. However, unless Abdullah is prepared to defy that opinion and face the threat of civil war, he cannot rule those areas which his Arab Legion has been largely instrumental in defending from the Jews. Moreover, the strength of nationalist feeling in Iraq makes it doubtful whether the Iraqi Government will long be able to support Abdullah in his defiance of the Arab League's action. The reported fusion of the Iraqi and Transjordan high commands is at best a paper agreement and will probably not long stand up under this new strain. The public rift in the Arab political front, if allowed to continue, may well result in the creation of two opposing camps, one supporting a pro-Mufti Palestinian government and the other favoring control by Transjordan of Arab Palestine. Such an eventuality would greatly complicate the implementation of any UN decision regarding Palestine.

**INDIA-PAKISTAN**

India's consolidation of its Hyderabad triumph has taken place with remarkable speed. Following a capitulation after less than five days of desultory resistance to the invading Indian troops, the Nizam quickly indicated his desire to please India. Not only did he enjoin his subjects to obey India's military governor but he abandoned his efforts to obtain the intervention of the UN Security Council. The fanatical Moslem Razakars, against whose raids India's action was ostensibly directed, have been officially disbanded without notable commotion; their leader, Razvi, and some of his followers have been arrested. India's occupation of Hyderabad has in fact progressed so rapidly as

**SECRET****INDIA-PAKISTAN**

to suggest some collusion between the Indian Government and the Nizam, whose previous intransigence may have been influenced by fear of Razakar reprisals.

Pressure by the US and other nations to regularize India's use of armed force in Hyderabad through some form of UN action will irritate the Indians but will not change the status quo. The UN Security Council may drop the Hyderabad case upon receipt of formal statements from the Nizam and India indicating that hostilities have ceased and that the wishes of the Hyderabad population will not be ignored. Even if the Security Council calls for a UN-sponsored plebiscite, the situation will remain basically the same, inasmuch as Hyderabad has a preponderantly pro-Indian Hindu population.

No immediate change in the Kashmir military situation is likely. Although India is undoubtedly tempted to undertake an all-out drive in Kashmir now that a quick decision has been gained in Hyderabad, the Government of India will probably be restrained by: (1) approaching bad weather; (2) the time necessary to redeploy troops and improve supply lines; (3) the fear of prejudicing the Indian case before the Security Council which will soon receive the report of the UN Kashmir Commission; and (4) the imminent departure of Prime Minister Nehru to attend the Commonwealth Prime Ministers' conference in London and to visit the UN General Assembly in Paris.

**UNION OF SOUTH AFRICA**

The South African Delegation to the UN General Assembly in Paris may walk out at the meeting or may conceivably withdraw from the UN because of two issues on the provisional agenda: the status of Southwest Africa and the position of South Africa's Indian minority. South Africa has already disregarded a UN recommendation that it submit a trusteeship agreement covering

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## **UNION OF SOUTH AFRICA**

Southwest Africa; the Government may also take steps leading to the eventual incorporation of the territory as a fifth province of the Union in open defiance of the UN. Equally intolerant concerning UN interference with the question of the Indian minority, the leader of South Africa's strong UN delegation has declared that he will not allow South Africa "to be put in the dock." South Africa is desirous of avoiding a showdown, but its delegation may withdraw rather than acknowledge UN jurisdiction over what it considers its internal affairs.

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## CHINA EAST

## CHINA

Extensive Communist military activity apparently signifies the start of a general offensive. The Communists appear to be carrying out "reconnaissance in force" of the Tsinan-Chinhsien area where their raids have already inflicted serious damage to the Peiping-Mukden Railroad. Attacks have been centering in the area where a vague line of demarcation separates the Nationalist commands of Fu Tso-yi and Fan Han-chieh. At Tsinan, Communist siege operations appear to have developed into a major assault on the strategic Shantung capital. Although the Nationalist situation in this city is critical, the defending forces seem capable of temporarily withstanding the present Communist attacking force. Communist interest in Tsinan may be to obtain a North China city suitable as a political capital for a new Chinese Communist regime. The main body of Communist General Chen Yi's forces is reported half way between Tsinan and the Government stronghold of Hsuehou, the last Nationalist line of defense before Nanking. Thus, the Communists are in a favorable position to move on either city.

## INDONESIA

Widespread military action which will jeopardize a Netherlands-Republic settlement in Indonesia now appears probable. On 18 September the Indonesian Communist Party (PKI) seized Madioen, third largest Republican city in Java, and set up a Communist government. This Communist attempt to overthrow the present moderate Republican government may precipitate civil conflict throughout the Republic and may lead to serious disorders in other areas of Indonesia. Communist forces are reported to hold two seaports and one oil refinery which supply Jogjakarta, the Republican capital. In western Sumatra, Communists have clashed with elements of the Republican army and are reported to have captured the port of Sibolga.

**SECRET****INDONESIA**

**The strength of Communist forces is not definitely known, but it appears that the Government has for the moment at least retained the loyalty of the majority of both the populace and its armed forces (TNI). Nevertheless, it appears that the TNI will have difficulty in coping with this current revolt. TNI forces have been endeavoring to subdue Communist left-wing elements in the vicinity of Soerakarta (Solo) for the past eight months without success.**

**Meanwhile, Netherlands forces have been active along the status quo line to the north of Soerakarta and Jogjakarta. A substantial quantity of aviation gas has been stocked at Semarang and artillery is reported to have been moved to Salitiga recently. A joint Republican-Netherlands drive against the Communists is unlikely because popular backing would be withdrawn from the present Republican government at any suggestion of collaboration with the Dutch. However, Netherlands forces may intervene in the dispute on the grounds that the Republic is unable to maintain law and order. Such action would destroy any basis for a Netherlands-Republican political agreement.**

**JAPAN**

**The US-sponsored revival of Japanese foreign trade has met with considerable success in Siam and French Indochina, where comprehensive bilateral trade agreements are now in effect. Although postwar economic improvement in the Far East has been most notable in Southeast Asia, Japanese trade with that area is expected to be of short duration because of increasing unrest there. As a result of adverse public opinion and perhaps also as a result of the Philippine desire to become the leading industrial nation of the Far East, the Philippine Government has undertaken only limited and strictly-controlled trade with its former enemy. Japan's long-range**

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## JAPAN

opportunities for economic recovery probably depend chiefly upon the reopening of trade channels to North China, Manchuria, and Korea, but Communist activities have made all these areas inaccessible or unstable.

## KOREA

The previously anticipated announcement of a Soviet troop withdrawal from North Korea is the first move of the Soviet propaganda campaign in the UN which will portray the western powers as seekers of war. Although a complete Soviet withdrawal could be accomplished in 30 days, the Soviet Foreign Office says it may take until 1 January 1949. The present announcement indicates the conviction of the Kremlin that the "people's" government of North Korea is not only loyally attached to the USSR but is able to maintain its internal security. The Soviet announcement is also an endeavor to place the USSR in a more favorable position when the Korean question comes before the UN General Assembly by drawing attention away from the Soviet refusal to permit UN-observed elections in North Korea. The Soviet withdrawal would have little effect on the strategic position of the USSR in Korea because Soviet troops numbered only 34,000 on 31 August, and they would leave behind them the pro-Soviet North Korean People's Army of approximately 50,000.

US efforts to rehabilitate the South Korean economy may be undermined by the Republic's failure speedily to inaugurate effective internal controls. The projected US program of economic aid is based on such governmental controls as rice collection, rationing, the prevention of hoarding and of excessive profiteering. If the South Korean Government delays these measures because of its preoccupation with more pressing domestic and external political problems, US aid will be unable to check mounting inflation with consequent long-range damage to the South Korean economy.

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WESTERN HEMISPHERE

PERU

The stability of the Peruvian Government is improved as the result of a general pay raise and promotions in the armed and police forces. Opposition to the administration is expected to continue, however, especially from APRA (Peru's largest party of the non-Communist left) because President Bustamante's decision to govern by decree has deprived the party of the advantage of its majority in Congress. Although the administration's recent measures have greatly reduced APRA's support within the army, the party will probably continue its efforts to embarrass the government and to create further political disorders by relying upon its strength within labor circles.

PANAMA

Revolutionary disorders and bloodshed may accompany the Panamanian inauguration of President-elect Diaz. Followers of Arnulfo Arias, the defeated candidate, have stated that Diaz "shall never be president." Meanwhile, Arias' family are reportedly active in his support in Costa Rica and the Canal Zone and Arias is engaged in mysterious airplane trips in Mexico.

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